

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT

REPORT ON FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
University of South Carolina
Columbia, South Carolina

We have audited the accompanying financial statements of the business-type activities of the University of South Carolina - Beaufort (the Campus), a campus of the University of South Carolina (the University) as of and for the year ended June 30, 2012, which collectively comprise the Campus' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the University and the Campus. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Campus are intended to present the financial position, and changes in financial position and cash flows, of only that portion of the business-type activities of the University that is attributable to the transactions of the Campus. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2012, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the Campus as of June 30, 2012, and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2012 on our consideration of the Campus' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Elliott Davis, LLC

Columbia, South Carolina
December 31, 2012

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Management's Discussion and Analysis
(Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The University of South Carolina – Beaufort (the Campus) is pleased to present its financial statements for the fiscal year 2012. Management's Discussion and Analysis provides an overview and analysis of the Campus' financial activities for the fiscal year ended June 30, 2012, with comparative information for the fiscal year ended June 30, 2011. This information should be read in conjunction with the financial statements and accompanying footnotes that follow this section. Condensed fiscal year 2012 and 2011 operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data.

This report includes a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Codification Sections 2100-2900, *Financial Reporting*, and Co5, *Colleges and Universities*. The financial statements presented focus on the financial condition of the Campus, the results of operations, and cash flows of the Campus as a whole.

There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and, the Statement of Cash Flows. These statements present financial information in a format similar to that used by private corporations. The Campus' net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the Campus' financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the assets, liabilities, and net assets of the Campus as of the end of the fiscal year. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the Campus. The Statement of Net Assets presents end-of-year data concerning the following:

- Assets - Property that we own and what we are owed by others
- Liabilities - What we owe to others and have collected from others before we have provided the service
- Net Assets - The difference between assets and liabilities

The Statement of Net Assets is prepared under the accrual basis of accounting, where revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service to us, regardless of when cash is exchanged.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the institution. Net assets are divided into the following three major categories:

- Invested in capital assets, net of related debt - Provides the institution's equity in property, plant, and equipment owned by the institution.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Management's Discussion and Analysis
(Unaudited)

- Restricted net assets -
 - a. Nonexpendable restricted net assets consist solely of the Campus' permanent endowment funds and are only available for investment purposes.
 - b. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets.
- Unrestricted net assets - Unrestricted assets are available to the institution for any lawful purpose of the institution.

Summary of Net Assets

	<u>2012</u>	<u>2011</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Assets				
Current assets	\$ 6,850,243	\$ 7,083,741	\$ (233,498)	(3.30%)
Capital assets, net	40,073,715	39,589,298	484,417	1.22%
Other noncurrent assets	<u>79,000</u>	<u>79,000</u>	<u>-</u>	<u>-</u>
Total assets	<u>47,002,958</u>	<u>46,752,039</u>	<u>250,919</u>	<u>0.54%</u>
Liabilities				
Current liabilities	1,095,457	1,085,823	9,634	0.89%
Noncurrent liabilities	<u>2,989,045</u>	<u>2,984,722</u>	<u>4,323</u>	<u>0.14%</u>
Total liabilities	<u>4,084,502</u>	<u>4,070,545</u>	<u>13,957</u>	<u>0.34%</u>
Net assets				
Invested in capital assets, net of related debt	37,298,194	36,724,299	573,895	1.56%
Restricted - nonexpendable	79,000	79,000	-	-
Restricted - expendable	2,036,519	2,896,302	(859,783)	(29.69%)
Unrestricted	<u>3,504,743</u>	<u>2,981,893</u>	<u>522,850</u>	<u>17.53%</u>
Total net assets	<u><u>\$ 42,918,456</u></u>	<u><u>\$ 42,681,494</u></u>	<u><u>\$ 236,962</u></u>	<u><u>0.56%</u></u>

- Total assets of the Campus increased by approximately \$250,900. Net capital assets increased approximately \$484,000 due to various capital purchases and annual depreciation. Current assets decreased by approximately \$233,500 due to a decrease in grant funding.
- Net assets of the Campus increased during the year by approximately \$237,000. The net increase is derived by the approximate \$522,800 and \$573,900 increase in unrestricted net assets and net assets invested in capital assets net of related debt, respectively, and offset by a decrease of approximately \$860,000 unrestricted expendable net assets.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Management's Discussion and Analysis
(Unaudited)

Assets, Liabilities and Net Assets



STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public university's dependency on state aid and gifts will result in operating deficits. The GASB requires state appropriations and gifts to be classified as nonoperating revenues. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of the statement is to present the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution.

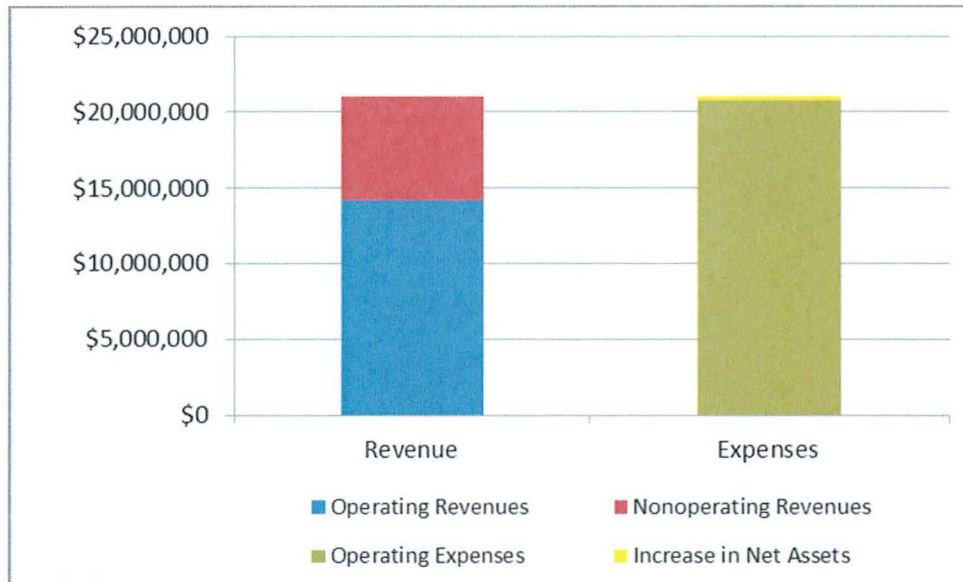
Operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. State capital appropriations and capital grants and gifts are considered neither operating nor nonoperating revenues and are reported after "Income before other revenues and transfers."

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Management's Discussion and Analysis
(Unaudited)

Summary of Revenues, Expenses and Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Operating Revenues:				
Student tuition and fees, net	\$ 9,809,156	\$ 9,385,956	\$ 423,200	4.51%
Federal grants and contracts	755,581	946,588	(191,007)	(20.18%)
State grants and contracts	2,114,442	2,076,540	37,902	1.83%
Local grants and contracts	227,290	123,717	103,573	83.72%
Nongovernmental grants and contracts	23,616	72,074	(48,458)	(67.23%)
Sales and services of educational and other activities	612,044	578,898	33,146	5.73%
Sales and services of auxiliary enterprises	79,605	89,682	(10,077)	(11.24%)
Other fees	95,169	79,334	15,835	19.96%
Other operating revenues	<u>474,461</u>	<u>49,455</u>	<u>425,006</u>	859.38%
Total operating revenues	<u>14,191,364</u>	<u>13,402,244</u>	<u>789,120</u>	5.89%
Operating Expenses:				
Salaries and wages	10,842,155	10,294,812	547,343	5.32%
Fringe benefits	2,966,613	2,737,070	229,543	8.39%
Services and supplies	4,354,068	3,836,731	517,337	13.48%
Utilities	831,156	817,885	13,271	1.62%
Scholarships and fellowships	523,120	568,383	(45,263)	(7.96%)
Depreciation expense	<u>1,264,307</u>	<u>1,232,093</u>	<u>32,214</u>	2.61%
Total operating expenses	<u>20,781,419</u>	<u>19,486,974</u>	<u>1,294,445</u>	6.64%
Operating loss	(6,590,055)	(6,084,730)	(505,325)	8.30%
Net nonoperating revenues	<u>6,371,553</u>	<u>6,350,298</u>	<u>21,255</u>	0.33%
Income (loss) before other revenues and transfers	(218,502)	265,568	(484,070)	(182.28%)
Other revenues and transfers	<u>455,464</u>	<u>(155,583)</u>	<u>611,047</u>	(392.75%)
Increase in net assets	236,962	109,985	126,977	115.45%
Net assets, beginning of year	<u>42,681,494</u>	<u>42,571,509</u>	<u>109,985</u>	0.26%
Net assets, end of year	<u><u>\$ 42,918,456</u></u>	<u><u>\$ 42,681,494</u></u>	<u><u>\$ 236,962</u></u>	0.56%

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Management's Discussion and Analysis
(Unaudited)



The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in Net Assets at the end of the year. Some highlights of the information presented on this Summary are as follows:

- An approximate net increase of \$423,200 in student tuition and fees, a decrease of approximately \$98,000 in grants and contracts, and an increase of approximately \$425,000 in other operating revenues were responsible for the overall \$789,120 increase in operating revenues. The increase in student tuition and fees is due both to the increase in enrollment and the 3.9 percent tuition increase. The tuition increase is necessary for meeting the Campus' mission and strategic goals especially as state appropriations decline. Contracts and grants decrease is due to the wrapping up of the federal stimulus allocations and federal grants received from this program. The increase in other operating revenues is primarily due to insurance proceeds from the loss of the research facility on Pritchard's Island.
- Operating expenses increased approximately \$1.3 million and 6.6 percent. The majority of the increase is due to the increase in personnel and fringe from additional faculty and staff to serve the increased student enrollment. The Campus also implemented a bonus plan in fiscal year 2012 in lieu of a base salary increase. Services and supplies increased \$517,337 due to inflationary and enrollment increases.

STATEMENT OF CASH FLOWS

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital assets and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Management's Discussion and Analysis
(Unaudited)

CAPITAL ASSET AND DEBT ADMINISTRATION

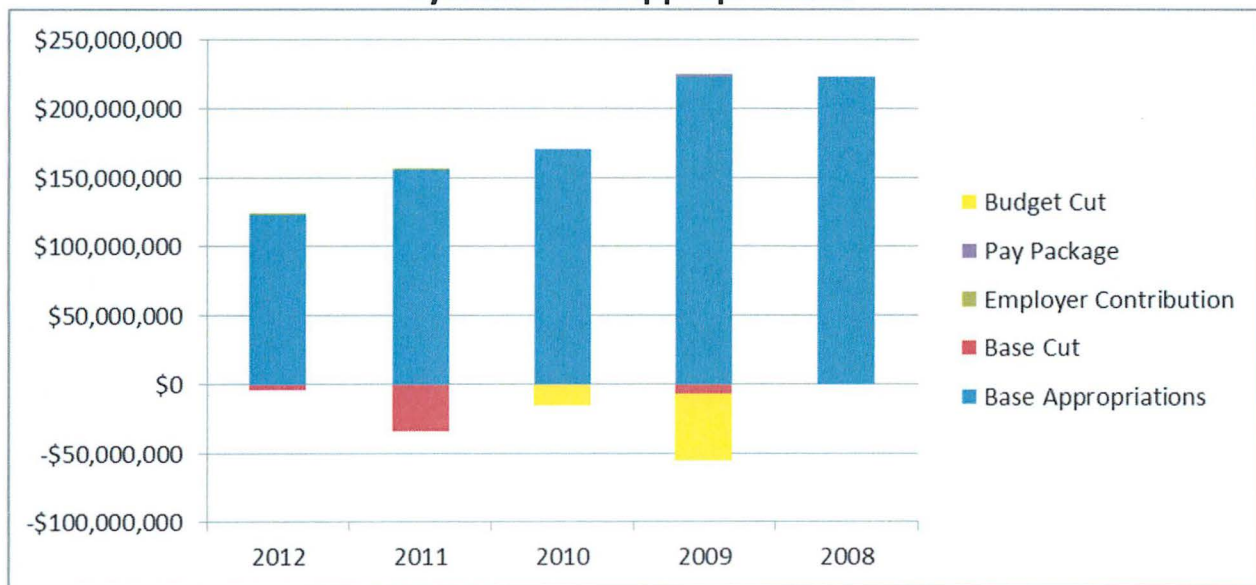
During the year, the Campus did not have any major capital projects started or completed.

The Campus indebtedness consists of bonds and notes payable of \$2.8 million.

ECONOMIC OUTLOOK

The economic position of the Campus continues to be loosely tied to that of the State of South Carolina as evidenced by the Campus' sustained strong financial performance despite significant reductions in state appropriations from 2008 through 2012. The Beaufort Campus received a significant state funding reduction of 8 percent to begin the 2012 year totaling \$116,932. Along with all public higher education institutions in South Carolina, the University received a state funding reduction of 6 percent to begin the 2012 year totaling \$7.3 million across the system. The State closed the fiscal year 2012 with revenues of more than \$380 million above the original Annual Appropriations Act leading to a surplus for the third straight year. Additionally, the State of South Carolina allocated a pay package for state employees for the first time since 2008 and provided a share of new personnel and fringe funds to the University.

System State Appropriations



The University's overall financial position remains strong. The University relies on tuition and fees to support the general operating budget and is aware of State funding support when tuition and fees are set. Tuition increases for the 2013 year were in line with the Higher Education Price Index (HEPI) but will not cover the full impact of all inflationary needs and new initiatives. For USC Beaufort, tuition increases were HEPI plus \$125 per year to better align the four year degree tuition with the USC Aiken tuition rate. Resident undergraduate tuition for the Campus is the lowest of all baccalaureate institutions in the State. Interest in the Campus remains strong with steady enrollment evidenced by a fall 2012 student headcount of 1,828 and full time equivalent student enrollment of 1,547.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Statement of Net Assets
June 30, 2012

ASSETS

Current assets:

Cash and cash equivalents	\$ 3,815,891
Accounts receivable, net	478,772
Prepaid items	116,050
Restricted - cash and cash equivalents	<u>2,439,530</u>
Total current assets	<u>6,850,243</u>

Noncurrent assets:

Restricted - cash and cash equivalents	79,000
Capital assets, net of accumulated depreciation	<u>40,073,715</u>
Total noncurrent assets	<u>40,152,715</u>
Total assets	<u>47,002,958</u>

LIABILITIES

Current liabilities:

Accounts payable	142,923
Accrued interest payable	37,725
Accrued payroll and related liabilities	57,494
Accrued compensated absences - current portion	234,591
Long-term debt - current portion	128,315
Deferred revenues	363,913
Deposits	1,167
Funds held for others	<u>129,329</u>
Total current liabilities	<u>1,095,457</u>

Noncurrent liabilities:

Retainage payable	77,300
Accrued compensated absences	264,539
Long-term debt	<u>2,647,206</u>
Total noncurrent liabilities	<u>2,989,045</u>
Total liabilities	<u>4,084,502</u>

NET ASSETS

Invested in capital assets, net of related debt	37,298,194
Restricted for:	
Nonexpendable	79,000
Expendable	
Scholarships, research, instruction, and other	510,272
Loans	314
Capital projects	1,505,723
Debt service	20,210
Unrestricted	<u>3,504,743</u>
Total net assets	<u>\$ 42,918,456</u>

See accompanying notes to the financial statements which are an integral part of these statements

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Statement of Revenues, Expenses and Changes in Net Assets
For the year ended June 30, 2012

OPERATING REVENUES

Student tuition and fees (\$354,094 pledged for bonds)	\$ 15,747,229
Less scholarship allowance	(5,938,073)
Federal grants and contracts	755,581
State grants and contracts	2,114,442
Local grants and contracts	227,290
Nongovernmental grants and contracts	23,616
Sales and services of educational and other activities	612,044
Sales and services of auxiliary enterprises	79,605
Other fees	95,169
Other operating revenues	<u>474,461</u>
Total operating revenues	<u>14,191,364</u>

OPERATING EXPENSES

Salaries and wages	10,842,155
Fringe benefits	2,966,613
Services and supplies	4,354,068
Utilities	831,156
Scholarships and fellowships	523,120
Depreciation expense	<u>1,264,307</u>
Total operating expenses	<u>20,781,419</u>
Operating loss	<u>(6,590,055)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	1,484,465
Federal grants	3,202,624
Gifts	1,700,667
Investment income	42,416
Endowment income	7,325
Interest on capital asset related debt	<u>(65,944)</u>
Net nonoperating revenues	<u>6,371,553</u>
Loss before other revenues and transfers	(218,502)
Capital grants and gifts	450,000
Transfers from other campuses, net	<u>5,464</u>
Change in net assets	236,962

NET ASSETS, BEGINNING OF YEAR

42,681,494

NET ASSETS, END OF YEAR

\$ 42,918,456

See accompanying notes to the financial statements which are an integral part of these statements

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT

Statement of Cash Flows

For the year ended June 30, 2012

OPERATING ACTIVITIES

Student tuition and fees	\$ 9,839,437
Research grants and contracts	3,423,536
Sales and services of educational and other activities	488,801
Sales and services of auxiliary enterprises	80,527
Inflows from federal family education loans	10,484,085
Outflows from federal family education loans	(10,550,847)
Payments to employees for services	(10,799,841)
Payments to employees for benefits	(2,970,470)
Payments to suppliers	(5,342,287)
Payments to students for scholarships and fellowships	(523,120)
Other receipts	569,630
Inflows from agency funds	2,756,688
Outflows from agency funds	<u>(2,727,285)</u>
Net cash used for operating activities	<u>(5,271,146)</u>

NONCAPITAL FINANCING ACTIVITIES

State appropriations	1,484,465
Federal grants	3,202,624
Gifts	1,700,667
Transfers to other state funds/campuses, net	<u>20,138</u>
Net cash provided by noncapital financing activities	<u>6,407,894</u>

CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt	76,771
Capital grants and gifts	581,893
Purchase and construction of capital assets	(1,676,233)
Principal paid on capital asset related debt	(160,000)
Interest paid on capital asset related debt	<u>(129,897)</u>
Net cash used for capital and related financing activities	<u>(1,307,466)</u>

INVESTING ACTIVITIES

Investment income	42,801
Endowment income	<u>7,325</u>
Net cash provided by investing activities	<u>50,126</u>
Net decrease in cash and cash equivalents	<u>(120,592)</u>

Cash and cash equivalents, beginning of year	<u>6,455,013</u>
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Cash and cash equivalents, end of year	<u><u>\$ 6,334,421</u></u>
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Reconciliation of cash and cash equivalents

Cash and cash equivalents	\$ 3,815,891
Restricted - cash and cash equivalents, current	2,439,530
Restricted - cash and cash equivalents, noncurrent	<u>79,000</u>
	<u><u>\$ 6,334,421</u></u>

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Statement of Cash Flows
For the year ended June 30, 2012

Reconciliation of net operating loss to net cash used for operating activities

Operating loss	\$ (6,590,055)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation expense	1,264,307
Change in current assets and liabilities	
Accounts receivable, net	182,893
Prepaid items	(70,373)
Accounts payable	(86,690)
Accrued payroll	(21,019)
Accrued benefits	(3,857)
Accrued annual leave and related liabilities	63,333
Deferred revenues	26,507
Deposits	1,167
Funds held for others	(37,359)
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Net cash used for operating activities	<u>\$ (5,271,146)</u>

NONCASH TRANSACTIONS

Transfer of capital assets to other campuses, net	<u>\$ (14,674)</u>
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See accompanying notes to the financial statements which are an integral part of these statements

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - The University of South Carolina - Beaufort (the Campus) is a State-supported, coeducational institution of higher education and is one of eight campuses of the University of South Carolina (the University). The Campus' primary purpose is to provide undergraduate, graduate, and professional education to students and conduct research and other activities that advance fundamental knowledge.

Reporting Entity - The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Codification Section 2100, *Defining the Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete.

The University is a department of the State of South Carolina because it is financially accountable to and fiscally dependent on the State. Its Board of Trustees is appointed by the Governor and/or the General Assembly of the State.

Financial Statements - The financial statement presentation for the Campus meets the requirements of GASB Codification Sections 2100-2900, *Financial Reporting*, and Co5, *Colleges and Universities*. The financial statement presentation provides a comprehensive, entity-wide perspective of the Campus' net assets, revenues, expenses and changes in net assets and cash flows.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates used include separation of accrued compensated absences between current and noncurrent and depreciation expense. Actual results could differ from those estimates.

Basis of Accounting - For financial reporting purposes, the Campus is considered to be engaged only in business-type activities. Accordingly, the Campus' financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly are presented as scholarship and fellowship expenses. All significant intra-agency transactions have been eliminated.

The Campus has elected not to apply *Financial Accounting Standards Board* (FASB) pronouncements issued after November 30, 1989.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Campus considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office cash management pool are considered cash equivalents. Restricted cash and cash equivalents are comprised of bond proceeds, debt service funds and externally restricted funds.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Campus reports deposits in the general deposit account at cost and the special deposit accounts at fair value. Interest earned, including interest income, realized gains (losses) and unrealized gains (losses), by the Campus' special deposit accounts is posted at the end of each month based on the percentage of the Campus' accumulated daily income receivable to the total income receivable of the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year end based on the percentage of ownership in the pool.

Accounts Receivable - Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the Campus' grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories - Inventories are carried at the lower of cost or market as determined by various methods.

Noncurrent Cash and Investments - Noncurrent cash and investments primarily consist of permanently endowed funds. These funds are externally restricted and are classified as noncurrent assets in the statement of net assets.

Prepaid Items - Expenditures for services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. Amounts reported in this asset account consist primarily of rent, subscriptions, library periodicals, maintenance and service agreements, and travel reservations and deposits.

Capital Assets - Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The Campus follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The Campus capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 55 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. A full year of depreciation is taken the year the asset is placed in service and no depreciation is taken in the year of disposition.

The Campus capitalizes as a component of construction in progress interest cost in excess of earnings on invested debt proceeds associated with the capital projects. Therefore, asset values in capital assets include such interest costs. Capitalized interest for fiscal year 2012 was \$56,643.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Deferred Revenues and Deposits - Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Compensated Absences - Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net assets.

Noncurrent Liabilities - Noncurrent liabilities include (1) principal amounts of bonds payable; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Net Assets - The Campus' net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the Campus' total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the Campus is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the Campus, and may be used at the discretion of the governing board to meet current expenses for any purpose.

The Campus policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

Income Taxes - The University is a department of the State of South Carolina and, is therefore, generally exempt from federal and state income taxes under applicable federal and state statutes and regulations on related income. Certain activities of the Campus may be subject to taxation as unrelated business income.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Classification of Revenues - The Campus has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues generally result from exchange transactions to provide goods or services related to the Campus' principal ongoing operations.

These revenues include:

- (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students;
- (2) receipts for scholarships including federal grants and contract revenue where the governmental agency has identified the qualified student recipients;
- (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the Campus; and
- (4) grants and contracts that are essentially the same as contracts for services that finance programs the Campus would not otherwise undertake.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income, and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

Scholarship Discounts and Allowances - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the Campus, and the amount that is paid by students and/or third parties making payments on the students' behalf.

Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the Campus' financial statements.

To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the Campus has recorded a scholarship discount and allowance.

Rebatable Arbitrage - Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate of return, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from these earnings exceeds the effective yield on the related tax-exempt debt issued.

Governmental units that issue no more than \$5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. Management believes that the Campus had no rebatable arbitrage liability at June 30, 2012.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Donor-Restricted Endowments - Endowments are subject to restrictions requiring that the principal be invested and that only the income be used for specific purposes. If a donor has not provided specific timing instructions, state law permits the Board of Trustees to authorize for expenditure the endowment's net appreciation. Any net appreciation that is spent is required to be spent for the purpose for which the endowment was established. The Campus has a total return policy for authorizing and spending endowment income.

At June 30, 2012, \$31,488 of the amount reported as *restricted net assets, expendable - scholarships, research, instruction and other*, represented net appreciation of donor-restricted endowments.

NOTE 2 - CASH AND CASH EQUIVALENTS, OTHER DEPOSITS, AND INVESTMENTS

Most deposits and investments of the Campus are under the control of the State Treasurer who, by law, has sole authority for investing State funds.

The following schedule reconciles deposits and investments within the notes to the statement of net assets amounts:

Statement of Net Assets		Notes	
Cash and cash equivalents (current)	\$ 3,815,891	Cash on hand	\$ 1,241
Restricted cash and cash equivalents for (current):		Deposits held by State Treasurer	6,333,180
Debt service	57,298		
Scholarship, research, instruction, and other	592,151		<u>\$ 6,334,421</u>
Capital projects	1,790,081		
	<u>2,439,530</u>		
Restricted cash and cash equivalents (noncurrent):			
Endowments	79,000		
	<u>\$ 6,334,421</u>		

Deposits Held by State Treasurer - State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's deposits and investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

With respect to the investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and the credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 3 - RECEIVABLES

Accounts Receivable - Accounts receivable consisted of the following:

Students and sponsors	\$ 395,964
Federal grants and contracts	154,581
Local grants and contracts	38,049
Non-governmental grants and contracts	1,381
Accrued interest	<u>12,433</u>
	602,408
Less allowance for doubtful accounts	<u>(123,636)</u>
Accounts receivable, net	<u><u>\$ 478,772</u></u>

Allowances for losses are based upon actual losses experienced in prior years and evaluations of the current accounts.

NOTE 4- CAPITAL ASSETS

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2012</u>
Capital assets not being depreciated				
Land and improvements	\$ 872,026	\$ -	\$ -	\$ 872,026
Construction in progress	<u>4,807,165</u>	<u>1,498,249</u>	<u>-</u>	<u>6,305,414</u>
Total capital assets not being depreciated	<u>5,679,191</u>	<u>1,498,249</u>	<u>-</u>	<u>7,177,440</u>
Other capital assets				
Land improvements	6,220,370	-	-	6,220,370
Buildings and improvements	36,247,814	56,643	-	36,304,457
Machinery, equipment and other	1,242,326	165,986	13,992	1,394,320
Vehicles	<u>176,000</u>	<u>27,846</u>	<u>-</u>	<u>203,846</u>
Total capital assets at historical cost	<u>43,886,510</u>	<u>250,475</u>	<u>13,992</u>	<u>44,122,993</u>
Less accumulated depreciation for				
Land improvements	1,025,566	170,928	-	1,196,494
Buildings and improvements	8,040,245	938,433	-	8,978,678
Machinery, equipment and other	754,581	154,127	13,992	894,716
Vehicles	<u>156,011</u>	<u>819</u>	<u>-</u>	<u>156,830</u>
Total accumulated depreciation	<u>9,976,403</u>	<u>1,264,307</u>	<u>13,992</u>	<u>11,226,718</u>
Other capital assets, net	<u>33,910,107</u>	<u>(1,013,832)</u>	<u>-</u>	<u>32,896,275</u>
Capital assets, net	<u><u>\$ 39,589,298</u></u>	<u><u>\$ 484,417</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 40,073,715</u></u>

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 5 - PENSION PLANS

The Retirement Division of the State Budget and Control Board maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the five pension plans are included in the CAFR of the State of South Carolina.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

South Carolina Retirement System - The majority of employees of the Campus are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

During fiscal year 2012, employees participating in the SCRS were required to contribute 6.5 percent of all compensation. The employer contribution rate was 13.685 percent of all compensation which included a 4.3 percent surcharge to fund retiree health and dental insurance coverage. The Campus' actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2012, 2011, and 2010, were \$555,000, \$529,000 and \$502,000, respectively, and equaled the required contributions of 9.385 percent (excluding the surcharge) for each year. Also, the Campus paid employer group-life insurance contributions of \$9,000 in the current fiscal year at the rate of .15 percent of compensation.

Police Officers Retirement System - The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan administered by the Retirement Division. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

During fiscal year 2012, employees participating in the PORS were required to contribute 6.5 percent of all compensation. The employer contribution rate was 15.663 percent of all compensation which included the 4.3 percent surcharge. The Campus' actual contributions to the PORS for the years ending June 30, 2012, 2011, and 2010 were \$40,000, \$35,000 and \$19,000, respectively, and equaled the required contributions of 11.363 percent (excluding the surcharge) for each year. Also, the Campus paid employer group-life insurance contributions of \$700 and accidental death insurance contributions of \$700 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 5 - PENSION PLANS, Continued

Optional Retirement Program - State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is available to all employees who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must waive SCRS membership within their first thirty days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 9.385 percent plus the retiree surcharge of 4.3 percent from the employer in fiscal year 2012. Employees are required to contribute 6.5 percent of all compensation.

Certain of the Campus' employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were \$325,000 (excluding the surcharge) from the Campus as employer and \$223,000 from its employees as plan members. In fiscal year 2012, the Campus paid \$5,000 for group-life insurance coverage for these employees. All amounts were remitted directly to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

Deferred Compensation Plans - Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Campus have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Teacher and Employee Retention Incentive - Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Participants who entered the TERI program prior to July 1, 2005 do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. Participants who entered the TERI program as of July 1, 2005 or after are required to make SCRS contributions but do not earn service credit, and are ineligible to receive disability retirement benefits.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

Plan Description - In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State of South Carolina provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Campus contributes to the Retiree Medical Plan (RMP) and the Long-term Disability Plan (LTDP), cost-sharing multiple-employer defined benefit postemployment healthcare and long-term disability plans administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board (SBCB). Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires May 2, 2008 and after, retirees are eligible for benefits if they have established twenty-five years of service for 100 percent employer funding and fifteen through twenty-four years of service for 50 percent employer funding. Benefits become effective when the former employee retires under a State retirement system. Basic long-term disability (BLTD) benefits are provided to active state, public school district and participating local government employees approved for disability.

Funding Policies - Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment healthcare and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the EIP and participating retirees to the SBCB except the portion funded through the pension surcharge and provided from other applicable sources of the EIP for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 4.3 percent of annual covered payroll for 2012. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The Campus paid approximately \$419,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal year ended June 30, 2012. BLTD benefits are funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to EIP was \$3.22 for the fiscal year ended June 30, 2012.

Effective May 1, 2008, the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The South Carolina Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Long Term Disability Insurance Trust Fund is primarily funded through investment income and employer contributions.

One may obtain complete financial statements for the benefit plans and the trust funds from Employee Insurance Program, 1201 Main Street, Suite 360, Columbia, SC 29201.

NOTE 7 - CONTINGENCIES, LITIGATION, AND PROJECT COMMITMENTS

The Campus is party to various lawsuits arising out of the normal conduct of its operations. In the opinion of Campus management, there are no material claims or lawsuits against the Campus that are not covered by insurance or whose settlement would materially affect the Campus' financial position.

The Campus participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, would not be material.

The Campus had outstanding commitments under construction contracts of \$812,282 for capital and \$18,700 for noncapital projects. The Campus anticipates funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state capital improvement bond proceeds.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 8 - LEASE OBLIGATIONS

The Campus has no noncancelable operating leases with remaining terms of more than one year. Total payments for a year to year operating lease were \$19,917 for fiscal year 2012. In the current fiscal year, the Campus incurred expenses of \$65,983 for office copier contingent rentals on a cost per copy basis. The campus has two real property operating leases which can be renewed on an annual basis in August and September. The amount committed under these leases at June 30, 2012 was \$2,455.

NOTE 9 - BONDS AND NOTES PAYABLE

Bonds Payable - Bonds payable consisted of the following:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Balance</u>
State Institution Bonds			
Series 2011E	2.25% to 5.0%	03/01/31	\$ 2,580,000
Series 2012A Refunding	4.0% to 5.0%	04/01/16	<u>51,000</u>
Total State Institution Bonds			<u>\$ 2,631,000</u>

State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition fees are pledged up to the amount of the annual debt requirements for the payment of principal and interest on state institution bonds. The annual legal debt margin for state institution bonds shall not exceed ninety percent of the sums received from tuition fees for the preceding fiscal year.

Tuition fees used to calculate the Campus' debt service limit on bond indebtedness for the preceding year were \$329,805, which results in a legal annual debt service at June 30, 2012 of \$296,825. The annual debt service payments for state institution bonds for the fiscal year were \$222,169. Tuition revenue pledged in fiscal year 2012 was \$354,094 for state institution bonds.

On May 1, 2012, the Campus issued \$51,000 of Series 2012A state institution refunding bonds to fully advance refund the Series 1996B state institution bonds maturing April 1, 2013 to April 1, 2016 and callable May 1, 2012. The refunding transaction resulted in a loss on refunding of \$229 (reported as interest expense in fiscal year 2012), an aggregate debt payment reduction of \$5,253 over the next four years and an economic gain of \$5,098.

The Campus believes it is in compliance with all related bond covenants of its issued debt.

The scheduled maturities of the Campus bonds payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
State Institution Bonds			
2013	\$ 107,000	\$ 114,136	\$ 221,136
2014	107,000	111,711	218,711
2015	113,000	108,381	221,381
2016	119,000	104,731	223,731
2017	105,000	101,669	206,669
2018 - 2022	590,000	445,144	1,035,144
2023 - 2027	755,000	285,744	1,040,744
2028 - 2031	<u>735,000</u>	<u>93,150</u>	<u>828,150</u>
Total	<u>\$ 2,631,000</u>	<u>\$ 1,364,666</u>	<u>\$ 3,995,666</u>

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 9 - BONDS AND NOTES PAYABLE, Continued

Notes Payable - Notes payable consisted of the following:

Campus note payable for energy efficiency projects, dated January 2011, payable in annual installments of \$6,896 at no interest, matures January 2014.

\$ 20,689

The scheduled maturities of the notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 13,793	\$ -	\$ 13,793
2014	<u>6,896</u>	<u>-</u>	<u>6,896</u>
Total	<u>\$ 20,689</u>	<u>\$ -</u>	<u>\$ 20,689</u>

NOTE 10 - LONG-TERM LIABILITIES

Long-term liability activity was as follows:

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2012</u>	<u>Due Within One Year</u>
Bonds and notes payable					
State institution bonds	\$ 2,740,000	\$ 51,000	\$ 160,000	\$ 2,631,000	\$ 107,000
Unamortized bond premiums	<u>125,000</u>	<u>5,082</u>	<u>6,250</u>	<u>123,832</u>	<u>7,522</u>
Total bonds payable	2,865,000	56,082	166,250	2,754,832	114,522
Notes payable	<u>-</u>	<u>20,689</u>	<u>-</u>	<u>20,689</u>	<u>13,793</u>
Total bonds and notes payable	<u>2,865,000</u>	<u>76,771</u>	<u>166,250</u>	<u>2,775,521</u>	<u>128,315</u>
Other liabilities					
Accrued compensated absences	435,797	290,561	227,228	499,130	234,591
Retainage payable	10,369	77,300	10,369	77,300	-
Deferred revenues	<u>205,513</u>	<u>363,913</u>	<u>205,513</u>	<u>363,913</u>	<u>363,913</u>
Total other liabilities	<u>651,679</u>	<u>731,774</u>	<u>443,110</u>	<u>940,343</u>	<u>598,504</u>
Total long-term liabilities	<u>\$ 3,516,679</u>	<u>\$ 808,545</u>	<u>\$ 609,360</u>	<u>\$ 3,715,864</u>	<u>\$ 726,819</u>

Additional information regarding bonds and notes payable is included in Note 9.

NOTE 11 - RELATED PARTY

The Beaufort Jasper Higher Education Commission (the Commission) is a separately chartered legal entity which does not meet the criteria established by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units - An Amendment of GASB Statement No. 14*, to be treated as a component unit of the Campus. While it is not financially accountable to the Campus, the Commission exists primarily to provide financial assistance and other support to the Campus and the educational programs. The activities of the Commission are not included in the Campus' financial statements.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 11 - RELATED PARTY, Continued

The Commission was created by Act 59 in the 2004 session of the General Assembly of South Carolina. The Commission is composed of nine members who are appointed by the Governor on the recommendation of a majority of the Beaufort and Jasper County Legislative Delegation. The Commission's purpose is to contract with institutions of higher education for the establishment and operation of education centers in Beaufort and Jasper counties and it is empowered to make binding agreements for the furnishing of suitable facilities and accommodations for the education centers. The Commission receives an annual appropriation from Beaufort and Jasper Counties to accomplish these objectives. During the year ended June 30, 2012, the Commission gifted \$1,400,000 to USC Beaufort. The gift included \$56,298 for reimbursement of salaries for accounting services. The Commission allows use of its land and buildings for USC Beaufort housing, dining and bookstore services. At June 30, 2012, the Commission had net assets of \$7,085,851.

NOTE 12 - RISK MANAGEMENT

The Campus has a comprehensive risk management program which incorporates the fundamentals of risk identification, risk evaluation, risk control and risk financing alternatives in reducing loss potential. The risk management office mitigates the financial consequences of physical, human, and financial loss by purchasing insurance through the State Budget and Control Board Office of the Insurance Reserve Fund (IRF). As needed, the IRF policies are supplemented by the purchase of policies through the private insurance market. Several sections of the South Carolina Code of Laws authorize and require the State Budget and Control Board, through the IRF, to provide insurance to governmental entities. These statutes in turn require most state entities to purchase insurance through the IRF. These sections include:

Title 1 - Administration of Government, Section 1-11-140 - 141. Authority to provide tort liability insurance to governmental entities, their employees, and charitable medical facilities.

Title 1 - Administration of Government: Section 1-11-147. Automobile Liability Reinsurance.

Title 10 - Public Buildings and Property: Section 10-7-10 through 10-7-40. Authority to insure public buildings and contents.

Title 10 - Public Buildings and Property: Section 10-7-12. Authority to purchase reinsurance.

Title 10 - Public Buildings and Property: Section 10-7-130. Authority to hold monies paid as premiums for the purpose of paying Insured losses.

Title 11 - Public Finance: Section 11-9-75. Debt Collection Procedures.

Title 15 - Civil Remedies and Procedures: Section 15-78-10 through 15-78-150. S.C. Governmental Tort Claims Act. Authority to provide liability insurance.

Title 38 - Insurance: Section 38-13-190. Requires South Carolina Insurance Department Audits of Insurance Reserve Fund Finance.

Title 59 - Education: Section 59-67-710 & 59-67-790. Authority to insure school buses and pupils transported by school bus.

Title 59 - Education: Section 59-67-790. Pupil Injury Fund.

UNIVERSITY OF SOUTH CAROLINA - BEAUFORT
Notes to the Financial Statements

NOTE 12 - RISK MANAGEMENT, Continued

The IRF functions as a governmental insurance operation with the mission to provide insurance specifically designed to meet the needs of governmental entities at the lowest possible cost. The IRF operates like an insurance company, by issuing policies, collecting premiums (based on actuarially calculated rates), and by paying claims from the accumulated premiums in accordance with the terms and conditions of the insurance policies it has issued.

All premiums received by the IRF are deposited with the Office of the State Treasurer where the funds are maintained as the IRF Trust Account. By statutory requirement, these funds are to be used to pay claims and operating expenses of the fund. The Office of the State Treasurer is responsible for investing these funds. The costs of settled claims have not exceeded the Campus' insurance coverage in any of the past three years.

The IRF uses no agents, brokers, or advertising, and does not actively solicit accounts. The lack of a profit motive and the lack of acquisition expenses such as agents' commissions, along with the use of the investment income in rate determination allows the IRF to maintain the lowest possible rate structure. Not all governmental entities elect to purchase their insurance through the IRF. The South Carolina Tort Claims Act allows political subdivisions of the State access to other mechanisms to meet their insurance needs at their discretion. Some entities participate in other self-insurance pools, some purchase commercial insurance, and some elect to self-insure their insurance exposures.

The various types of property insurance policies maintained by the Campus include: Building and Personal Property, Inland Marine, Data Processing Equipment, Business Interruption and Builders' Risk. Additionally, risk management maintains a variety of casualty insurance policies including Automobile and Aircraft Property Damage and Liability, Directors and Officers Liability, General Tort Liability, Medical Professional Liability, an Employee Fidelity Bond, and Student Workers' Compensation.

NOTE 13 - OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification are summarized as follows:

	<u>Salaries and Wages</u>	<u>Fringe Benefits</u>	<u>Services and Supplies</u>	<u>Utilities</u>	<u>Scholarships and Fellowships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 5,175,731	\$ 1,367,597	\$ 653,831	\$ 2,095	\$ 123	\$ -	\$ 7,199,377
Research	298,844	81,758	294,252	-	-	-	674,854
Public service	304,695	76,215	335,211	-	-	-	716,121
Academic support	1,550,705	453,927	896,757	-	120	-	2,901,509
Student services	1,528,159	426,807	1,204,491	80	2,630	-	3,162,167
Institutional support	931,499	253,304	336,424	-	29	-	1,521,256
Operation and plant maintenance	1,052,522	307,005	552,710	828,981	7	-	2,741,225
Auxiliary enterprises	-	-	72,668	-	-	-	72,668
Scholarships and fellowships	-	-	7,724	-	520,211	-	527,935
Depreciation	-	-	-	-	-	1,264,307	1,264,307
Total operating expenses	<u>\$ 10,842,155</u>	<u>\$ 2,966,613</u>	<u>\$ 4,354,068</u>	<u>\$ 831,156</u>	<u>\$ 523,120</u>	<u>\$ 1,264,307</u>	<u>\$ 20,781,419</u>



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Trustees
University of South Carolina
Columbia, South Carolina

We have audited the financial statements of the business-type activities of the University of South Carolina - Beaufort (the Campus) a campus of the University of South Carolina, as of and for the year ended June 30, 2012, which collectively comprise the Campus' basic financial statements, and have issued our report thereon dated December 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Campus is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Campus' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Campus' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Campus' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Campus' financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Campus' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the University in a separate letter dated December 31, 2012.

This report is intended solely for the information and use of management, the Board of Trustees and the Southern Association of Colleges and Schools and is not intended to be and should not be used by anyone other than these specified parties.

Elliott Davis, LLC

Columbia, South Carolina
December 31, 2012